

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /105 W

-----221011Z 036283 /22

R 220843Z MAR 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4088

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS BERN 1211

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAR 13-19

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC SLIPPED TO SF 2.54 AS SQUEEZE ON SHORT-TERM FRANCS DEVELOPED. MONEY MARKET LIQUIDITY WAS TIGHT. SWISS NATIONAL BANK ANNOUNCED LESS LIBERAL MONETARY POLICY. WORLD BANK LOAN ISSUE WAS REDUCED REFLECTING INVESTOR DISINTEREST. INCREASED DEMAND PUSHED GOLD PRICE TO 150. PARLIAMENT BEGAN DEBATE ON GOVT FINANCIAL PACKAGE. SWISS CREDIT BANK MAY TAKE OVER CLOSED WEISSCREDIT BANK. SWISS TRADE DEFICIT WIDENED IN FEB. END SUMMARY.

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2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST SWISS FRANC SLIPPED TO SF 2.54 FRIDAY FROM MID-WEEK HIGH SF 2.56 IN MODERATELY ACTIVE MARKET. DM RATE REMAINED SF 106 DESPITE UPWARD FLUCTUATIONS. SOME BANKERS BELIEVE DOLLAR RATE SF 2.60 IS LIKELY, THOUGH MOST EXPECT FRANC TO BECOME STRONGER WITH TIME. SWITCHING

FROM FRANCS INTO HIGH INTEREST CURRENCIES ADDED TO
SQUEEZE IN SHORT-TERM FRANCS RESULTING IN LOWER
FORWARD DISCOUNT RATES. GOLD PRICE ROSE TO PREDICTED
150. AS INCREASED DEMAND, PARTICULARLY IN EUROPE,
REFLECTED DIFFICULTIES IN ITALY, LACK OF ATTRACTION
FOR SWISS FRANC PLACEMENTS AND CONCERN FOR RENEWED
INFLATION, ESPECIALLY IN US. RATES FOLLOW:

	3/14(OPEN)	3/18(CLOSE)
SPOT DOLLAR	2.5487	2.5475
FORWARD DISCOUNTS (PCT P A)		
1 MONTH	2.07	1.51
2 MONTHS	2.07	1.74
3 MONTHS	2.11	1.74
6 MONTHS	2.37	2.08
12 MONTHS	2.79	2.59
SF/DM	106.70	106.56
GOLD	145	150

3. CAPITAL AND MONEY MARKETS: CALL MONEY RATE 2 PCT
DUE TO TIGHT LIQUIDITY, SNB FOREIGN EXCHANGE HOLDINGS
DECREASED SF 762 MIL RESULT OF CONTINUED SWAPS WITH
BANKS AND SALES FOR CAPITAL EXPORTS. SNB INCREASED
ITS CONFEDERATION BOND HOLDINGS SF 210 MIL IN AN
OPERATION INTENDED TO BOOST MARKET PRICE AND KEEP
INTEREST RATES LOW. AVERAGE YIELD CONFEDERATION BONDS
REMAINED 3.98. STOCK PRICES SHOWED MODERATE IMPROVEMENT;
SKA INDEX (1959 EQUALS 100) UP TO 226.9. MAR 7-11
WORLD BANK LOAN ISSUED 15 YRS AT 4.25 PCT WAS
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REDUCED TO SF 100 MIL FROM ANNOUNCED SF 200 MIL
BECAUSE AMOUNT EXCEEDED INTEREST OF INVESTORS WHO
ALREADY HOLD LARGE AMOUNTS IBRD BONDS. BORROWERS
FLOATED SF 1.6 BIL IN LOANS DURING JAN AND FEB COMPARED
SF 2.1 BIL SAME PERIOD 1976; SF 1.1 BIL BY SWISS AAND
SF 517 MIL BY FOREIGNERS. FOREIGN LOAN ISSUES WILL BE UNDER
SF 500 MIL CEILING FOR PERIOD MAR-APR.

4. SNB POLICY CHANGE: SNB ANNOUNCED TIGHTER MONETARY
POLICY BECAUSE OF EXCHANGE MARKET DEVELOPMENTS AND FACT
THAT M1 GREW BY 8.8 PCT IN 1976, EXCEEDING TARGET
OF 6 PCT. HAVING MADE ADDITIONAL SHORT TERM
DOLLAR SWAPS WITH BANKS IN EARLY MAR, SNB WILL NOT
OFFER UNLIMITED SWAPS FOR END MAR. SNB ALSO WILL
LIMIT GIRO CLEARING ACCOUNT LIQUIDITY TO SF 10 BIL,
LEVEL AT END SEP 1976 BUT SF 2.6 BIL BELOW
END 1976. TOGETHER WITH DISCOUNT AND LOMBARD LOAN
FACILITIES, SNB WILL CONTINUE OFFER 7 DAY SWAPS AT PAR
BUT WITHIN LIMITS DEPENDING ON MARKET CONDITIONS.

OBSERVERS SEE SNB INTENT TO DETERMINE DIRECTION OF BANKING SYSTEM BUT BELIEVE THERE SHOULD BE LONGER TERM SWAPS BEFORE EASTER HOLIDAYS WHEN LIQUIDITY EXPECTED TO BE ESPECIALLY TIGHT.

5. GOVT FINANCES: LOWER HOUSE OF PARLIAMENT BEGAN DEBATE ON PROPOSED GOVT FINANCIAL PACKAGE AIMING AT BALANCED BUDGET BY 1979. FEDERAL COUNCILOR CHEVALLAZ SAID PLAN REPRESENTED DESIRE OF GOVT, PARLIAMENT AND PEOPLE TO RESTRAIN GROWTH IN OUTLAYS SPREAD WITH REDUCTIONS EQUITABLY OVER ALL ACTIVITIES. FOUR LARGEST POLITICAL PARTIES HAVE EXPRESSED GENERAL SUPPORT, THOUGH SOCIALIST QUALIFIED PROGRAM AS "LEAST HARMFUL" APPROACH. FEDERAL COUNCILOR BRUGGER AND CHEVALLAZ CRITICIZED CALLS FOR REDUCED TAXES AND INCREASES SPENDING TO STIMULATE ECONOMY. THEY SAID TIME NOT OPPORTUNE TO LAUNCH STIMULATIVE
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PROGRAM THAT COULD FUEL INFLATION AND ENDANGER EXPORTS CRUCIAL TO RECOVERY. THEY SAID GOVT FINANCES PROVIDE NO ROOM FOR NEW SPENDING AND EXPLAINED THAT EFFECTS OF SF 1.2 BIL SPENT IN THREE PROGRAMS LAST YEAR SHOULD BE FELT IN 1977. BRUGGER SAID GOVT IS DEVELOPING NEW PROGRAM OF PHASED STIMULATIVE MEASURES.

6. BANK CLOSURE. SWISS CREDIT BANK IS REPORTED PREPARED TO TAKE OVER RECENTLY CLOSED WEISSKREDIT BANK OF LUGANO WITH SF 102 MIL BACKING FOR HOLDERS OF CURRENT AND DEPOSIT ACCOUNTS.

7. TRADE BALANCE: FEB TRADE BALANCE WAS SF 114.1 MIL DEFICIT COMPARED SF 30.8 MIL SURPLUS FEB 1976. FIRST 2 MONTHS 1977 HAD SF 146.7 MIL DEFICIT COMPARED SF 93 MIL DEFICIT SAME PERIOD 1976. JAN 1977 TRADE DEFICIT HAS BEEN ADJUSTED DOWNWARD TO SF 32.6 MIL. DAVIS

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Review Release Date: n/a
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